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## ECONOMICS AND THE SCIENCE OF BUSINESS

1. Proposition: theoretical economics, as taught from the textbooks and even as modified in the past generation, is not the basic science of business as physics is of engineering and chemistry of medicine.
2. The objective of business practice is not production but acquisition, not social service but private profit. Production is incidental. The assumption in economics that the direct objective of business is production is the source of error and futility.
3. Political economy serves admirably as the basic science of sociology and statecraft, for which purpose it was designed and formulated.
4. No engineer would dream of ignoring the laws of physics in drafting and executing plans; yet business men do not make much use of the concepts, laws, and principles of economics in their calculations. Many most successful business administrators have never read a book on economics.
5. Lack of a science of business has left business practice without adequate scientific guidance; the same errors are made over and over again and improvement comes but slowly by empirical methods. The theoretical economist is not sought eagerly by practical men of business; but when the psychologist seems to offer a science the principles of which may be applied to advertising, management of men, and sales, he receives a warm welcome. There exists a body of practical rules and principles of business unsystematized and traditional.
6. Even in schools of commerce the instruction in practical business subjects does not build up naturally on theoretical economics, but really throws it overboard for the empirical rules and concepts of the unscientific business man. So important a concept as "capital" has one meaning in economic theory and quite another in banking or finance, even though the two subjects are taught by the same instructor on the same day.

7. BUSINESS SCIENCE would be primarily concerned with *property* rather than *wealth* (defined as material objects and human services). Property is a right or privilege conferred, and defended by society, upon an individual or group, granting the exclusive use of material objects, etc.
8. Business is the activity of men striving to acquire property rights. Business activity creates relationships of contract and status, the forms of which are determined (1) by the evolutionary process of selection and survival and (2) by social control.
9. A business organization is a voluntary co-operative arrangement of men for the purpose of acquiring property collectively and more advantageously. Practically all individual incomes are derived from the distribution of the property collectively acquired by business organizations.
10. Business organizations acquire property rights (quantitatively measured by the unit of value, the dollar) by producing some product or service exchangeable for some form of property, usually a right to money, which may be distributed as income to individuals.
11. Business men are primarily concerned with property as dollars' worth rather than with things or services. They are interested in consumers only to the extent of acquiring from them the maximum of property value. Ordinarily this is sufficient incentive to induce business men to give the most efficient social service, but not in all cases. The exchangeability of items of property diminishes the *particularity* of such items and renders property, for business purposes, a homogeneous quantity of value.
12. The nucleus of a business organization is proprietorship. The proprietor function is to establish, maintain, and administer the relationships which constitute the organization. This function tends to become more and more diffused as the size of the organization increases, and the business organization itself emerges as a legal and accounting entity.
13. The relationships created by proprietors by contract are similar in all kinds of business. The most important are: (1)

proprietors to business organization, (2) capitalists (creditors) to business organization as debtor, (3) employees to business organization as employer.

Less intimate and vital are: (4) purveyor to business organization as purchaser, (5) customers to business organization as seller, (6) agents to business organization as principal, (7) landlord to business organization as tenant, (8) insurer to business organization as insured.

14. Successful business administration is measured by efficiency in so creating, maintaining, and managing these relationships as to realize a maximum of ultimate profit for the proprietors.
15. Every business organization is a trustee holding and utilizing property rights of others in the form of *assets*. The liabilities exhibited on the balance sheet show to what classes of proprietors or creditors these assets really belong, or rather their undivided and joint interest in the assets.
16. Capital is property rights which are being employed to acquire income for their owner. No property is capital that is not a business asset. Property rights not employed in business (invested or capitalized) are not capital. The service or utility of uncapitalized property to its owner is not business income.
17. Financing is the process of creating business relationships between owners of property, whether it be in form of uncapitalized property or of equities in capitalized property and business organizations.
18. Human service necessary in the operation of a business organization, aside from the proprietor function, is contributed by *employees* who receive incomes the rate of which is determined by contract and is usually not contingent upon the success of operations.
19. Business relationships are adjusted by bargaining. Nobody needs to enter into a relation except voluntarily. His right to withhold his contribution, whether of property or service, is the source of his bargaining power. Business incomes are determined by bargaining.
20. The public welfare is absolutely dependent upon the *incidental* product of business operation. Business operation is a matter of the voluntary activity of proprietors and their success in

organizing business relationships by adjusting the interests of contributors. The instability and unreliability of this system put a great responsibility upon government, which is responsible for public welfare. It is the duty of government to promote business activity, and when business fails to function, as in the case of a general railroad strike, it must devise substitute systems either temporarily or permanently.

21. Socialism proposes that government, on account of its social responsibility, shall assume the administration of economic relationships, especially in situations where the present voluntary proprietor system has produced important dissatisfaction.
22. The science of business is the science of profit-making. Efficiency in acquiring the maximum gross profit is the objective. It should formulate the principles determining the most efficient establishment and administration of business relationships; it should describe the interrelations of business organizations among themselves; it should explain the factors which determine prices and valuations; it should describe in correct proportions the devices and policies which have made business organization strong and successful; in short, it should present all the principles and data necessary for business efficiency.
23. The objection will at once arise that this ideal of business efficiency is not socially desirable. This is true, but science does not concern itself with the application of the principles which it formulates. Whether it is expedient for a business man to ignore all considerations and ideals other than pure business efficiency, or whether it is best policy for society to permit business men such freedom of choice, especially without some device for fixing greater responsibility upon proprietors, is of the highest importance, but the problem belongs to the political economist and sociologist.
24. One of the most difficult problems which the business administrator faces daily is this: How far may I, or shall I, or can I, depart from the strict policy of business efficiency in dealing with men? Besides being a business man I am also a citizen, a Christian, a man of human sympathies; a policy of cold-blooded, conscienceless administration forces me to violate my duties, sentiments, and ideals. How shall I choose among

- these conflicting interests? This is a problem for ethics and religion.
25. Business may be compared with military science; both are systems of action designed to secure certain definite results most efficiently. They are organized instruments of great power for both good and evil to humanity, depending upon the wisdom which employs them as instruments for some human purpose. Profiteering and military domination, the respective objectives of the two sciences, must be limited frequently by statesmanship and prevented from operating with full efficiency; von Tirpitz had to be restrained by Bethmann-Hollweg.
  26. Business science will not take the place of political economy, but it should enrich that subject by describing more clearly and accurately the phenomena which are the effects of business activities: business institutions, relations, conflicts of business interests, vested rights, etc. For the beginning student in commerce, political economy is too complex, the point of view is too unfamiliar and broad, the practical application too remote and difficult. It is much the same as though young army officers were to study military tactics, high explosives, and other technical branches of military science from the point of view of the diplomatist or statesman.
  27. The gravest problems with which this country is now struggling concern the proper use and control of this powerful instrument, the business system, so that its social effects may be beneficent rather than evil. What is most needed is a general popular understanding of the business system in all its operations and tendencies; political economy has not brought such enlightenment and does not seem capable by its nature of reaching people who are not specialized students.
  28. No student should leave a school of commerce without political economy (its concepts having first been harmonized with the concepts of business science and actual business practice), but the subject should be presented to him at the end rather than at the beginning of his course on the general pedagogical theory of progress from the simple to the complex.

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